

METRO AUDIT COMMITTEE

Meeting Minutes

June 27, 2018

Metro Regional Center, 600 NE Grand Avenue, Portland OR

10 am, Room 270

Members Present

Anne Darrow
Craig Dirksen
Brian Evans
Deanna Palm
Tim Collier
Andrew Carlstrom
Kathryn McLaughlin
Mark Ulanowicz

Affiliation

Chairperson, Citizen Member
Metro Councilor
Metro Auditor
MERC Representative
Director, Finance & Regulatory Services
Citizen member
Citizen Member
Citizen Member

Metro Staff Present

Caleb Ford
Karla Lenox
Christine Balcazar

Assistant Director, Finance & Regulatory Services
Financial Reporting Manager
Financial Reporting Supervisor

External Attendees:

Jim Lanzarotta
Ashley Osten

Partner, Moss Adams LLC
Senior Manager, Moss Adams LLC

1. Auditor Evans called the meeting to order and welcomed everyone. The attendees made introductions. Chairperson Darrow thanked those in attendance.

Chairperson Darrow asked for volunteers to take the position of Vice-Chair. Mr. Carlstrom volunteered to become Vice-Chair.

2. [Moss Adams presentation:](#)
 - Mr. Jim Lanzarotta welcomed the committee and covered the areas of:
 - Key service team members – Jim Lanzarotta, Engagement Reviewer and Partner; Kevin Mullerleile; Concurring Reviewer, Senior Manager; Ashley Osten, Audit Senior Manager; and Leila Annen, Manager, MAAS-IT Consulting (slide 3).
 - The audit team conducted three days of audit testing at Metro in May 2018.
 - Communications with those charged with governance at Metro (audit committee and Metro Council) are the auditor’s responsibility under US generally accepted auditing standards. The standards require them to communication about the planned scope and timing of audit (slide 4).
 - Ms. Ashley Osten covered the following:
 - Auditor’s responsibilities in accordance with US GAAP (slide 5). Because Metro receives federal grants there are additional reports to file.

- Summary of Services; Report compliance for federal funds and each major program, bonds (spending funds properly), comments for compliance, IT report, and management letter (slide 6).
- Audit Process – Internal Controls (includes Information Technology, items found and discussed with department) then to Analytical Procedures (revenue and expenses, trends, comparisons and expectations), lastly Substantive Procedures, this is the “Show Me” phase (confirmation of account balances, vouching to supporting documentation, representations from attorneys and management, and examining objective evidence). Slide 7
- What is Materiality? It’s the amount of a misstatement that could influence the economic decisions of users, taken on the basis of the financial statements. It’s calculated using certain quantitative (e.g., total assets) and qualitative factors (e.g., covenants, expectations, or industry factors) for each fund. Slide 8
 - o It’s used to identify significant audit areas; if a team only had 8 hours to conduct an audit, these items would be reviewed:
 - ✓ Revenues and Receivables
 - ✓ Bonds Payable – Open Spaces, Zoo Infrastructure, and Hotel
 - ✓ Capital Assets – Inventory of items and proper depreciation
 - ✓ Pension Liability and related pension expense – GASB 68 year 2 considerations
 - ✓ Compliance with Federal Laws and Regulations and Oregon Minimum Standards
- Consideration of Fraud, the team brainstorms how fraud could be committed then comes up with at least one “surprise procedure” to test. They are looking for significant fraud in high risk areas. This does not mean there is something wrong. Capital Assets and Revenue tend to be the highest risk areas in most organizations. Slide 10
- Mr. Lanzarotta shared that Moss Adams has been presenting annual trainings in the area of fraud. Computer security fraud (cyber security) is one area on the rise. Most risk is external (not employee risk). Councilor Dirksen asked how these are directed at the agency. Mr. Lanzarotta said some cyber fraud is through breaching the system by ghost vendors. Auditor Evans informed the committee that the Metro Auditor’s office is conducting a performance audit of information technology/security. Ms. Darrow asked how Ms. Annen is providing a different perspective on this issue and that she would like more information around cyber security. Ms. Osten responded that Ms. Annen is providing fresh eyes on Metro’s systems. Ms. Annen will attend the next meeting to provide more information about her review and what it found.
- Audit Timing – May 14 - 16, interim testing; May 21 – 25, testing of IT controls, June 27th, entrance meeting with audit committee; October 8 - 26, final fieldwork procedures for financial statements and Single audit; November 7th, discuss draft financial statements and auditor’s reports with management; November 19th, audit committee approval of statements and exit meeting; December 6th, Metro Council approval of auditor’s reports. Mr. Lanzarotta stated we are 3 weeks ahead of where we were 4 years ago. Slide 11
- Mr. Lanzarotta covered the areas of:
 - New Accounting and Audit standards
 - o GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (effective current fiscal year). Metro only offers the group rates for insurance. Metro doesn’t pay any part of the insurance. There is some implicit subsidy for these benefits but no direct payment by Metro. Slide 13
 - o GASB 83 – Certain Asset Retirement Obligations (effective for June 30, 2019 fiscal year). This is related to decommissioning of assets. Slide 14
 - o GASB 84 – Fiduciary Activities (effective for June 30, 2020 fiscal year). Metro will be reporting due to 401K accounts and deferred compensation. Slide 15

- GASB 87 - Leases (effective for June 30, 2021 fiscal year). Operating leases signed for services “a right to use,” to be booked as a liability. It also impacts any leases Metro provides to others. Ms. Lenox noted that Metro does have several leases; P5, Table 6, Childcare, and several that Metro is lessee, but they may not be material. Mr. Lanzarotta said there will be challenges interpreting renewals or extensions. Some may also have base cost plus a royalty. Ms. Darrow asked how materiality is determined and how much error can be tolerated. Ms. Lenox said some ideas have been discussed but they will need to be reviewed for reasonableness after they have a better understanding of which leases need to be included. Councilor Dirksen asked for confirmation that the standards apply not only to Metro as a lessee, but also as a lessor. Mr. Lanzarotta said that was correct. Slide 1
- GASB 88 – Direct borrowing (effective June 30, 2019 fiscal year). Requires all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. Councilor Dirksen asked if this standard would impact Metro. Mr. Lanzarotta answered that some government are raising funds directly with investors and this standard is designed to require more disclosures about the terms of those financing agreements. He said Metro’s net position will take a hit this year due to the hotel bond. If the housing bond passes in November then Metro will take an even larger hit to its net position. The bonds are property tax driven, which gives Metro a good story to tell potential investors. As long as there are no property tax limitations there will be a steady stream of revenue to repay bonds. Slide 17
- GASB 89 – Interest costs incurred before the end of a construction period (effective June 30, 2021 fiscal year). Requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. Slide 18
- Standards in the works – Financial Reporting Model (this will not change Metro’s report), Revenue and Expense Recognition (could change some reporting), Note Disclosure Reexamination (boiler plate language in footnotes may be reduced). Slide 19
- Going concern (AU-C 570), effective for current fiscal year. Mr. Lanzarotta noted that the auditor has an obligation to work with management if financial distress is detected. There are disclosure requirements. Slide 20
- Auditor’s involvement with exempt offering documents (AU-C 945), effective for initial or updated exempt offering documents distributed, circulated, or submitted on or after June 15, 2018. Bonds reliant upon audit documents puts the auditor at risk. A statement needs to be provided with the documents that the auditor has not reviewed for this reason.

3. Questions and discussions:

- Mr. Carlstrom asked about Ms. Annen’s experience with PeopleSoft and how that might affect this audit. Ms. Osten said that anytime there is a change in staff there will be differences. Ms. Annen has a different approach and methodology that she will be using. She might be digging in deeper. There is more integration with financial statement teams now. She will be reviewing to see if Metro’s reports and data are reliable. Mr. Lanzarotta said Ms. Annen will look into who can access the system, make changes, who has the rights/authority to reprogram the software, how are controls set up (is it appropriate for their role), where is the unit of record, and what or how good is security.
- Mr. Carlstrom asked how GASB 87 will relate to Cloud solutions. Will this be an asset of access for software or just making payments with a right to use? Mr. Lanzarotta said

there isn't good guidance. Audit issues for integrity of data in a Cloud based system. He isn't sure what the timeline is for this standard but it is in the top 10.

- Mr. Ulanowicz asked if PCI (Payment Card Industry) compliance is dealt with in the audit. Mr. Osten said they don't look at PCI compliance, but they do have IT people that are certified to look at it. Mr. Collier said there is an IS led project that has been working on the issue internally. They have made progress getting a lot of things off the network, but Metro isn't 100% PCI compliant. Mr. Lanzarotta said where this comes into the audit realm is when it comes to risks and consequences of non-compliance, including fines, risk to reputation, fraud, and the inability to take credit cards. If revenue came in mostly through credit card payments, it would be a risk. Generally speaking, it isn't a risk that is at the level where it needs review. Auditor Evans shared that his office is looking at PCI as part of the performance audit. The audit is in the survey phase so the specific topic has not yet been identified.
- Ms. Darrow asked about the portal notifications for the rest of the audit. Ms. Osten said the committee members will get updates on Fridays during their onsite work in October.

4. In closing, the next committee meeting is scheduled for Monday, November 19, 2018 from 9 – 10:30 AM.

Adjourn – the meeting adjourned at 11:02 am.

Attachment: [Moss Adam Entrance Presentation](#)